WILL PRICES FALL?

I. INTRODUCTION

The previous article[1] discussed the process by which the level of prices was raised and the quantity of circulating medium increased during the war. It is now our purpose to consider the possibilities of a fall in the general level of prices.

In his recent analysis of post-war prices[2] Professor Fisher observes that we have had a price revolution similar to that which followed the discovery of the New World and the appropriation of its great supplies of precious metals four hundred years ago. Professor Fisher bases his conclusion on the ground that there has been a permanent increase in the quantity of money multiplied by its velocity of circulation plus the quantity of credit currency multiplied by its velocity of circulation—in consequence of which the price quotient must remain permanently higher than it was before the war.

With the general conclusion that we are not likely to witness any considerable fall in the general level of prices in the *immediate* future I find myself in substantial accord. Whether the price revolution will remain permanent, however, depends, I believe, upon factors that are not adequately treated by a mere statement of the equation of exchange of money and goods. An appreciation of the probable post-war trend of prices can best be gained by a consideration of the probable expenses of production of commodities.

Let us consider first the relation between post-war prices and the volume of currency: It is generally assumed by quantity theorists that when bank currency has once been utilized it is practically certain to be used again—that when credit instruments have once entered the channels of circulation they remain there indefinitely as price-determining factors. This assumption, I

[1] See "War Finance and the Price Level," *Journal of Political Economy*, October, 1919.

[2] Irving Fisher, *The New Price Revolution*, a paper distributed by the United States Department of Labor, March, 1919.

believe, finds no verification in the actual processes of credit utilization. Let us illustrate:

To a considerable extent an expansion of bank loans was resorted to in connection with the Victory Loan. In order to discover what becomes of funds thus raised, suppose we trace the funds provided by loan expansion to the government and back again. Immediately speaking, the purchase of bonds by the banks, or the granting of loans to individuals for the purchase of bonds, resulted in an increase of bank deposit currency in the form of checking accounts. As soon as the government utilized its credit accounts with the banks the orders drawn against such accounts passed (largely) to business concerns to whom the government was indebted for war supplies. Upon receipt of these government payments the business men receiving them sent these checks to the banks for deposit. To the extent that the proceeds of these deposits were used in paying off bank loans of the depositors the result was a replenishment of bank reserves. To the extent that these deposits were not used to pay off loans, but merely to increase the balances of depositors, the result was of course to leave the ratio of reserves to deposits, in the banking system as a whole, the same as it was before the government utilized its credit. Now since the great majority of all businesses did have bank loans to meet, the inevitable result of the settlement of war obligations was to increase (immediately speaking) the proportion of bank reserves to liabilities.

Whether these reserves will again be utilized as a basis for additional loans and hence of new deposit accounts depends entirely upon the general business situation. So long as the war continued, new loans were of course consummated as fast as old ones were liquidated. But after the war new loans would be sought only so long as business men were assured of a profitable use of the funds borrowed. If the war were followed by a general business depression, there is no question but that the bank reserves would remain larger and the volume of outstanding credits much smaller than during the war period. The history of every period of depression attests the truth of this contention. It is significant that the quantity theory always ignores the phenomena of the business cycle.

The effect of the increased volume of bank reserves upon interest rates protrudes itself at this place. What happens when bank reserves are large and interest rates low? Not much of anything happened during 1914 and 1915, when the surplus reserves of the country were the largest ever known. Not much happens during any period of general business depression; for years bank reserves may remain high and market money rates low without any significant economic developments. Whether low interest rates will promptly be followed by an increase of business activity, which in turn will call forth an additional volume of loans, create an additional volume of credit currency, and reduce the bank reserves, depends altogether upon fundamental business conditions—among which low interest rates are only one factor.

The *Federal Reserve Bulletin* for October, received after this paper was in galley proof, contains a discussion of the connection between the expansion of bank credit currency during the war and rising prices, together with a consideration of the process by which deflation and falling prices are to be accomplished. This discussion is so pertinent to the analysis in this and the preceding paper that it merits a few words of comment.

With reference to the relation of bank credit currency to rising prices, it is pointed out that "while credit . . . . cannot create a situation which results in high prices, it is equally true that a situation which results in high prices cannot eventuate without the assistance and mediation of credit."[1] The Board finds the basic cause of the expansion of currency in the general buoyancy of industry and trade; it is this that originally creates a demand for and calls into existence the increased volume of bank credit currency. But the Board believes nevertheless that once an extension of credit is well under way, it acts as a stimulus to industry and trade, and becomes, perhaps, a causal factor. "It is at times difficult to say which is more cause and which is more effect, so closely interdependent and interwoven are the two."[2]

The Federal Reserve Board thus takes a position very different from that held by the typical quantity theorist.[3] The Board's

[1] *Federal Reserve Bulletin* (October, 1919), p. 912. [2] *Ibid.*

[3] It may be recalled that the Board has previously stated that the expansion in the volume of Federal Reserve notes was a result and not a cause of price advances.

knowledge of the process by which bank credit currency is created and utilized, by which it gets into circulation, has led to a denial of the naïve assumption that underlies the quantity theory, namely, that bank-lending power in the form of excess reserves is certain to be offered in exchange for goods on the market, that somebody will surely use that credit for the purpose of buying existing goods. The Federal Reserve Board now sees that whether such lending power will be used depends upon general business conditions and upon the price level itself. The Board does not consider also the relation of expenses of production to prices; the thought appears to run in terms rather of demand and supply of produced goods. It is doubtless because of this that the Board attaches more importance to bank credit currency as a causal factor, after a price advance is once under way, than does the present writer.[1]

Now for the Federal Reserve Board's view of the process of deflation. It is held that "prices will fall as savings accumulate and liquidation of the war-loan accounts of the banks ensues and production advances to the point where it more nearly matches the great increase in the volume of circulating or purchasing media which have been called forth during the successive emergencies of recent years."[2] It is believed that as the volume of rediscounts is decreased, the amount of Federal Reserve notes and deposit liabilities of the Federal Reserve banks will be accordingly lessened. At the same time reserves in both Federal Reserve and member banks would be automatically increased. "The whole volume of outstanding bank credit would thus contract itself, and the same causes that brought about the contraction would result in a lowering of prices, which would necessitate a smaller volume of pocket currency and a return flow of redundant currency to the banks."[3] Finally, increased production is necessary: "the effect of increased production will be to place a larger volume of goods against the greatly enlarged volume of our purchasing media, and thus to reduce prices."[4]

[1] While not denying that available credits may serve to stimulate somewhat an advance of prices during a period of active business, considerations of cost seem to me to be of much greater importance.

[2] *Federal Reserve Bulletin* (October, 1919), p. 913.

[3] *Ibid.*

[4] *Ibid.*, p. 914.

In the view of the Board "the way in must be the way out." Now the way in, that is to say, the process by which prices were raised from the 1914 to the 1919 level, was according to the Board mainly one of great business expansion which caused prices to advance and necessitated an increase in the volume of circulating media. "A reversal of this process" would seem to involve a great slackening of industrial activity, declining demand, and falling prices; and hence a lessened volume of circulating media. But the Board does not, in fact, countenance such a process. On the contrary, it stands for increased production in order to secure the "restoration of a proper balance between the volume of credit and the volume of goods."[1]

There is here a relapse into the simple quantity theory analysis. It appears to be merely a question of the total volume of goods as compared with monetary counters, actually or potentially in circulation. Moreover, it is assumed that the increased volume of production can be secured without the intermediation of bank loans; in a word, the Board here fails to recognize that currency is required to finance production, that it is not merely a medium for exchanging goods after they have been produced. Finally, it entirely fails to reckon with the relation of expenses of production to selling prices. This will be considered below.

II. REASONS FOR MAINTENANCE OF HIGH PRICES

What now of the actual events up to date—September, 1919? So far as prices are concerned it is well known that they have dropped somewhat in certain lines and increased somewhat in others, due to forces affecting supply and demand in particular cases; but there has been no important change in the general average of prices. The explanation of a failure of prices to "return to normal" lies once more primarily with considerations of cost.

The business depression of the winter and spring of 1919 did not result in a reduction of the expenses of production. In fact, because overhead charges remained the same, a reduction in the volume of business increased the cost of production per unit. So long as the cost of production remained high business men every-

[1] *Federal Reserve Bulletin* (October, 1919), p. 914.

where stoutly insisted that their selling prices could not be lowered. Here and there a great reduction in demand was followed by a price concession; but, speaking generally, business men resisted a reduction of prices in the face of high and rising costs.[1]

Assuming competition among producers, there is little doubt that in the long run individual firms whose costs of production were low might, by cutting prices, increase the volume of business at the expense of competing concerns with high costs. But to a considerable extent business had during the war been organized on the basis of industries, and there was accordingly a powerful resistance after the armistice to the disorganization that would result if price-cutting were permitted. It was felt by most government agencies and by most business men that sharp cutting of prices by the most efficient plants would be socially disastrous. It was this fear of general disorganization that underlay the policy of the evanescent Industrial Board of the Department of Commerce, which led to a fixing of the price of steel at a level which would protect high-cost plants.

The powerful opposition of business interests to an assumption of the losses that would be necessitated if prices were lowered, coupled with the belief in many quarters that business could go ahead as well on a high as on a low price level—that the only difficulty lay in waiting—gradually led to a maintenance of prices at substantially the war level. Meanwhile great agricultural prosperity and the continuation of European demands have enabled us to go forward for a time, at least, on the old level of prices. A readjustment was temporarily avoided.

At the same time the hang-over financial requirements and obligations of the war were such that it was not until well into the spring that any easing of bank reserves was manifest. The maintenance of prices, moreover, obviously carried with it a continuance

[1] The development of accounting has an important bearing on the situation. The more efficient accounting practice becomes the more quickly cost of production affects selling prices. In agriculture demand and supply fix the price of produced goods. But increasingly in manufacturing lines computations of probable cost not only fix price quotations in advance of production but govern as well the volume that will be produced. This is not to argue, of course, that a very strong demand may not result in the adjusting of prices above cost for considerable periods of time.

of high operating costs and large working capital; hence when business revived in May and June on the war price level, bank loans once more expanded in volume. Inasmuch, however, as the physical volume of business in May and June was substantially below that of the war period, it is scarcely to be doubted that we would have found ourselves with a continuance of high prices and a diminution of the volume of circulating medium incident to a lessened total volume of production had it not been for a great orgy of stock speculation which developed.

With the easing of money rates in the spring of 1919 stock speculation soon absorbed the released funds. It is not to be understood that it was the slightly easier money rates that was the primary cause of the great increase in stock speculation. It was rather an unbounded optimism on the part of new investors who had grown wealthy during the war that led to the great bull movement.[1] The result of this increased stock speculation in the spring and early summer of 1919 was, nevertheless, to increase the volume of monetary counters in circulation and to tighten the money market.[2] The great volume of stock exchange loans, together with continuing government financial operations which were handled by the banks of the monetary centers, explains the great volume of clearings in June and subsequent months of 1919.

III. ARE FUTURE PRICE REDUCTIONS POSSIBLE?

While the forces that were thus operating upon expenses of production for the first nine months—or more—after the armistice were such as to prevent a lowering of prices in most lines, it is not

[1] There were obviously numerous factors involved in the increased demand for securities. There was also one very important factor which restricted the selling of securities by an important group of investors, viz., the fear of taking profits by selling stock because of the high excess-profit taxes that would have to be paid.

[2] There was another very interesting result—one which shows that stock speculation is not always completely unrelated to productive enterprise. The fortunes made in the spring of 1919 in stock speculation were freely spent in the purchase of consumers' goods, and this was no mean stimulus to retail trade. These fortunes, be it observed, were not usually made at somebody's expense. They were derived from successive stock advances and successive sales; and the funds involved came from the commercial banks, where they might otherwise have remained idle.

impossible that this condition might be somewhat changed in the next two or three years.

If, by running plants at maximum capacity, by increasing the efficiency of labor, by introducing economies in management and methods, expenses of production are reduced, there can be no doubt that prices can decline. And with the decrease in the volume of working capital thus ensuing there would occur a resultant decrease in the volume of credit currency in actual circulation.

With the recovery of agricultural production throughout the world the price of wheat may well be substantially lowered, with a resulting decrease in the cost of bread, and sympathetically of foodstuffs generally. It is conceivable that with a lowered cost of living wage-earners might consent to a reduction in monetary wages—in which event the expenses of production would decline generally. This would reduce the volume of working capital required by business, and the volume of bank loans would accordingly be lessened. There would thus be a coincident reduction in selling prices and a contraction of the volume of circulating medium. The steps by which the business world moved during the war from a lower to a higher price level would thus be retraced.

It is possible, also, that as soon as European countries get on their feet industrially and begin to sell goods in the United States in payment of obligations incurred during the war this outside competition may force domestic prices in many lines to a lower level. It will be recalled that internal competition did not in most cases force prices down in the first six months following the armistice, for the reason that industries tacitly agreed that prices should be maintained at a level high enough to permit the high-cost concerns to make profits. The entrance of foreign goods into our market, however, might undermine this price-maintenance policy and force a real price-cutting competition among domestic concerns as well as between domestic and foreign establishments. It needs emphasizing here that the price reductions would be brought about by lessening costs through concentrating production in the most efficient plants.

In view of the very high costs of manufacture abroad it is as yet uncertain how powerful this foreign competition will prove within the next year. The depreciation of the exchanges is such, however, that I think we may look for a rapid decline in exports and a steady increase in imports. At present exchange rates, the costs to Continental importers, are increased from 30 to 90 per cent, while export prices from those countries are accordingly decreased a like amount. Even sterling exchange is at a discount of about 14 per cent. The only means of preventing still further declines in the exchanges is the extension of very large credits to Europe. I venture the opinion that nothing adequate in this connection will be accomplished.

IV. WAGES AND THE PRICE-LEVEL

But there is another vitally important angle to the problem, the tendency of which is unmistakably in the opposite direction. Laborers will resist with all the power at their command a reduction in wage-rates even after the cost of living has fallen. They argue that if wages are to be reduced as the cost of living falls the laborer will be forced to content himself with an unchanging standard of living. Only in case wages remain high while the cost of foodstuffs falls can the laborer increase his standard of living—an increase to which he deems himself indisputably entitled now that the war is over. Labor is, moreover, now strongly enough organized in most lines to resist effectively any general reduction in wages. Because of augmented power, born of the war, labor has become the controlling factor in the level of prices. It even affects in a vital way the foreign trade considerations enumerated above, because Europe is apparently on a permanently high-wage and hence high-operating-cost basis.

From the standpoint of labor as a whole it is obvious that there is little to be gained by maintaining a high level of wages, which only results in a correspondingly high level of prices.[1] Each

[1] It may be argued that, since wages are not the only factor in cost, the maintenance of wages does not necessarily imply a complete maintenance of prices. In view of the shortened working day, however, it is not improbable that the high costs of production are largely due to the labor factor.

particular group of laborers naturally feels, however, that it should maintain its level of monetary wages while prices are falling, or raise its wages while prices remain stationary. Any particular group would of course gain at the expense of other groups, provided the other groups were content to sit supinely by. For the first time in our history, however, labor as a whole—substantially speaking—is in a position to resist decreases, if not to command increases, in monetary wages.[1]

High operating costs cannot be reduced to pre-war levels so long as monetary wages remain at war levels. It is not to be inferred that unless wages fall there can be no fall in prices. Increased efficiency of production, as already noted, could effect a fall in prices despite the maintenance of monetary wages. No revolutionary drop could occur, however, unless monetary wages were reduced. And so long as operating costs remain high it will require a large volume of bank loans to finance production; hence the volume of bank currency, as well as prices, will remain large. The quantity of currency is, however, obviously a result rather than a cause of the price level.[2]

V. SOME RESULTS OF THE NEW PRICE LEVEL

While the prevention of a fall in prices, by the refusal of business men to cut rates in open competition for a decreased volume of trade and by the fear of reducing monetary wages, has given a

[1] In economic discussions of the minimum wage it has been customary to point out that universal wage increases would result in a general increase in prices, thus leaving labor with the same real wages as before. There is here a plain recognition that the price level may be changed by forces operating on expenses of production. In view of the general acceptance of this doctrine, it is the more surprising that monetary theorists have so persistently viewed the price level as merely an exchange phenomenon. Incidentally, it may be observed, in the light of the analysis in this paper of the relation of increased operating costs to the expansion of bank credit currency, that the assumption in minimum wage discussions that prices can always promptly be raised as wages are increased fails to reckon with the quantity of money and credit available for the increased working capital required. Under conditions where the supply of loanable funds is exhausted it would be impossible to raise the general level of wages and prices, because further expansion of the currency is impossible.

[2] Other forces tending to prevent a decline in prices are revealed in Section V below.

temporary stability to the social order, it has not solved the problems of post-war adjustment. On the contrary, it has given rise to many very difficult issues which may yet result in serious social and industrial disturbances.

The first of these problems is the dilemma of the fixed-income classes, that is, people receiving their incomes from savings and investments. At the present level of prices the value of savings accounts, of insurance, and of bond investments is just about half what it was in 1914; and there is no possibility whatever of a readjustment of incomes from such sources. Tragic is the only word that adequately describes the condition of many thousands of American families dependent in whole or in part upon accumulated savings. Most of them do not as yet fully realize what the war has meant to them.

The second problem relates to the salaried class. There is some possibility here that compensatory increases of incomes may eventually be secured by organization or in consequence of a sense of justice on the part of employing institutions. In the case of educational and charitable institutions, however, whose revenues are largely derived from endowments, the funds of which are invested in securities yielding a fixed income, there is little possibility of an early increase in salaries that will offset more than a fraction of the increased living costs. In the case of the public schools, state institutions, and the public service it is an entirely safe prediction that the tax-groaning public will not consent to a sufficient increase in revenues to permit an adequate adjustment of salaries.

Not only have the incomes and past savings of the salaried classes been cut in two, but future savings must in consequence of the changed price level be double those of the past if the same preparation for old age is to be made as formerly.[1] From the standpoint of the living conditions of the educational and public service fraternity this is deplorable enough; from the standpoint of public welfare, which in a democracy so largely depends upon adequate universal education, it is far worse. Never was there

[1] There appears to be little recognition of this phenomenon as yet. Perhaps it is fortunate for the peace of mind of those who have troubles enough already.

a greater burden placed upon the schools than now, and never was there a greater need for attracting efficient men and women into the profession. The price system, however, is at present forcing many out of the profession, and it is effectively curtailing the future supply. This analysis obviously applies with equal force to the public service.

Even among laborers the wage advances that were obtained during the war were extremely unequal, and the wage increases that have been received since the war have varied in proportion to the strategic importance of labor groups. The inequalities that exist thus give rise to a never-ending series of demands for increased wages.

A third problem is that of the public utilities. The increased operating costs of both steam and electric railways has been such that our transportation system is already on the verge of bankruptcy. The electrical railways of the country have, moreover, not been allowed to raise rates sufficiently to compensate for the increased expenses of operation, and, unlike the steam railways, having no other source of funds during the war, it has been impossible for them to raise the wages of their employees proportionally to the increased cost of living. Electric railway employees are accordingly now demanding increased wages. It would require a substantial increase in the rates of transportation generally, however, to meet present operating costs, much less increased operating costs. In view of the attitude of the American people with reference to transportation rates, it is an open question whether the steam and electric railways of the country will be granted an increase in revenue sufficient to permit their profitable operation.

And the worst of it is that our problem here is not merely a case of increased operating expenses. An enormous volume of new construction must be shortly undertaken if our transportation agencies, and public utilities generally, are adequately to perform their indispensable functions in the national economy. Two billion dollars a year for several years is a conservative estimate of railroad-construction requirements at the present cost level; the electric railways, according to the President's commission,

require a billion of new development the coming year, and similar amounts are doubtless necessary for other public utilities. The cost per unit of work is now nearly double what it was before the war, and the interest rates are at present from 7 to 8 per cent as compared with pre-war rates of from 4 to 4.5 per cent. If the transportation and utilities companies generally are unable to meet present expenses, when fixed charges are largely on the basis of pre-war costs, what rates will be required to permit returns on the basis of present construction costs?

In case increases in rates are soon granted sufficient in amount to compensate for increased operating costs (leaving out of consideration now the new construction) and to permit further wage increases, the result would be to set in operation another powerful force leading to an increase in the operating costs of industry generally. Increased transportation costs will increase the prices of construction materials and manufactured goods of every kind, thus still further handicapping the building industry and still further increasing the cost of living. And an increase in fares on both steam and electric railways and in the rates for water, gas, electricity, etc., would serve to increase the cost of living to the wage-earner and salaried man, and thus necessitate still further wage and salary advances.

This maintenance and actual increase in the price level is, moreover, a serious barrier to extensive private building operations, a barrier likely to persist for many years. It is one thing for business men, when once they have reached the conclusion that prices are not going to drop immediately, to buy raw materials for manufacture or finished goods for sale during a period of three or four months; but it is quite a different thing for them to assume the burden of excessive fixed charges. This is true even though a reduction of prices appears but a remote possibility.

A plant or other building constructed at present costs is tremendously handicapped as compared with plants constructed before the war, because of the assumption of excessive overhead charges for a period of indefinite duration. Under conditions of diminishing costs a new plant is normally in a position, by virtue of increased size or improved processes, to undersell the older establishments.

But because of the change in price level new establishments now find a handicap which in many cases will more than offset the possible advantages of increased size and improved methods. The original costs are certain to be, in nearly all cases, much higher than those of existing establishments; hence the new methods must be greatly superior to the old if competition on even terms is to ensue. It is true that in time dire need will compel new building; but society will have to assume the added production costs by consenting to an increase in the prices of the products of such establishments. In a word, as a result of the price changes industry generally has been abruptly removed from conditions of diminishing cost and placed under conditions of increasing cost. The result of this is at once to retard seriously the development of new industry and to prevent the normal fall of prices incident to industrial progress, if not to necessitate a gradual increase in prices.[1]

It may be noted that this competitive handicap of new enterprise tends to be overcome to the extent that existing establishments change hands and are thus capitalized on the new price level. The importance of this in reducing the competitive disadvantage mentioned should not be overemphasized, however; because a relatively small percentage of existing establishments completely change hands except over a long period of years. And in the case of corporations changes in the value of securities are not reflected in the financial accounts of the company. It is to be noted also that the effect of such new capitalizations as occur would be to help sustain the present level of prices.

In the case of apartment buildings constructed by contractors, the risk of being unable to sell at a profitable figure is a serious deterrent to ordinary operations. Home building, where profit is not the controlling force, provides a partial way out of the dilemma;[2] and residence hotels, which solve the problem of domestic help, for those who can afford to have such a problem, are also a

[1] This situation is of real interest to investors. For some time to come industries enjoying pre-war fixed charges will be in a much stronger financial position than new industries. This fact may also have a bearing upon the rapid advance in stock values of existing establishments.

[2] According to S. W. Straus, the home-building campaign has, however, been a failure.

way round. But for the typical denizen of the city flat these resorts bring no relief. Higher rents—estimated at an increase of 40 per cent over present rates—are regarded by builders as indispensable. But so great an increase in rents would very likely be the straw which breaks the consumer's back. At any rate, this possibility is an effective deterrent to normal building operations.[1] But if rents on apartment buildings could be raised sufficiently to make building profitable, it would only render the cost of living less tolerable; it would lead to lessened purchasing power in other directions and to still further demands by labor for compensatory wage increases.

It is worthy of note that a further deterrent to present building also lies in the possibility in the minds of many builders and financiers that prices may decline within the next few years, if not immediately. In the event that this occurs, both the cost of materials and the improvements in method in the new establishments would be operating against the competitive possibility of concerns built during the interval of maximum prices.

VI. CONCLUSION

In conclusion, I think we may say that it was organization on the part of industries and on the part of labor that prevented a substantial decline in prices in the first months following the armistice. It seems to me not improbable that under the conditions that obtained twenty years ago, with industries less effectively organized and with unionism much less powerful, prices would have materially declined in the spring of 1919. Now whether the present vicious spiral of price increases (in manufacturing lines) will be broken largely depends upon whether the organization of industry and of labor respectively can be held together in the face of all contingencies.

For instance, with the reserves against Federal Reserve notes and deposits combined down to about 38 per cent, in the Federal Reserve bank of New York, and down to less than 48 per cent

[1] There are many loose statements afloat in press channels to the effect that we are now having in fact a great building boom. The truth is, however, that the actual volume, in spite of the great need, is, in both industrial and apartment lines, far below that of normal years.

in the Federal Reserve banks as a whole, a credit collapse, with attendant business depression, is not an impossibility. It may be noted, also, that a financial collapse in Europe, regarded by many students as not improbable, would have disastrous effects upon American industry.

A depression may also be precipitated by industrial warfare. Lessened efficiency of labor, strikes, and lockouts may well succeed in producing chaotic conditions. With basic industries such as mines, railways, and public utilities unable to function normally—due either to financial or to labor difficulties—there is certainly ample ground for apprehension over the industrial outlook.

In the face of an industrial depression of considerable duration, would business enterprises be able to resist price cutting in the hope of preserving markets? Would labor, in the face of a great volume of unemployment, be able to resist wage declines? In the old days, under such circumstances, individual businesses and individual workers struggled to save themselves as individuals. What would happen under present conditions? I hazard the guess that a serious industrial depression would serve to break down the resistance to price declines on the part of both labor and capital, and precipitate a substantial fall in values.

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